

Inefficiency caused by random matching and heterogeneity

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Abstract I study an economy with sellers and buyers with unit supplies and unit demands. Both parties have valuations uniformly distributed on a unit interval. I quantify the inefficiency, compared to the Walrasian markets, when the agents meet randomly. There are several causes of inefficiency that I deal with separately. First, even if there is perfect information about valuations it makes a difference whether all agents participate in the markets or whether only those who would trade in the Walrasian market participate. The same applies when there is private information about valuations.

Keywords Inefficiency · Random matching · Heterogeneity

JEL Classification D4 · D5

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